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The World Is Not Flat For The Transports

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Between repeated drubbings on the tennis court at the hands of my 16-year-old son over the recent, year-end holidays, I found time to read The World Is Flat by Pulitzer-Prize-winning author and New York Times columnist Thomas L. Friedman. In his bestselling book, Friedman argues persuasively that economic globalization is accelerating, and is leveling the global economic playing field in the process. In the words that form both the primary theme and the title of the book, globalization appears to be "flattening" the world. Now more than ever, individuals, organizations and corporations have access to information and resources that make their businesses and other endeavors more sophisticated, organized and competitive. The diverse group of catalysts driving this global "flattening," in Friedman's view, include an over-capitalized, global, fiber-optic communications network, increasingly widespread access to the internet, extensive use of advanced search engines, motivated, low-cost labor pools in China and India, a focus on technical/engineering education in Russia and Eastern Europe, and the growth of integrated, global supply chain management businesses such as UPS (that now boasts the fitting slogan, "Your World Synchronized").

While the book clearly defined many of the competitive pressures that are quietly mounting against our domestic economy (Is anyone in Washington paying attention to these trends?), I was particularly struck by the author's admission that certain jobs and industry segments are essentially insulated from these "flattening" forces. No matter how globally integrated and "flat" our economy becomes, Friedman points out that some industries are simply unable to be "offshored," outsourced, or automated. The U.S. freight transportation industry came to mind immediately as a good example of an industry that should remain a notable exception to this pervasive global trend. Though it is increasingly critical to the functioning of the U.S. and global economy, the freight transportation industry cannot be outsourced to a call center in Bangalore, India, cannot be "offshored" to a manufacturing plant in central China, and cannot be automated by the application of new technologies. Freight transportation, in our view, is an industry that will continue to operate the old fashioned way, with human beings working hard to produce the revenue ton-miles day-in and day-out, even in a flattening world. A fully integrated global economy, as we envision it, will still require an actual truck driver to run an actual load of freight down the highway, a real engineer to operate a train as it moves down the track, and a bona-fide riverboat pilot to guide a consist of barges down the river to its final destination. In fact, a clear understanding of globalization may help investors understand our contention that transportation assets (including the industry's human capital) should become even more essential, and thus more valuable, in the new global economy. We suggest that the insulated nature of the domestic freight transportation business should present companies capable of operating in an increasingly complex and global environment with an unprecedented opportunity to distinguish themselves both operationally and financially, especially in light of the secular tightness in supply and demand the industry should continue to face for the foreseeable future.

Though the freight transportation industry has become more productive over the years (as examples, domestic railroads generated over 400% more revenue ton-miles per employee in 2004 than they did in 1980, and truck semi-trailers on average provide roughly 46% more interior cubic capacity than they did in 1980), we believe we are now in the midst of a long-term tightening of domestic freight capacity and domestic freight demand. In fact, productivity improvements seem to have plateaued recently, just as the global economic forces Friedman discusses in his recent book have been helping to drive an acceleration in the growth of domestic transportation demand.

In this piece, we attempt to demonstrate that U.S. transportation stocks are no longer the highly cyclical companies they were in previous business cycles. In our opinion, as long as demand continues to outstrip supply, the carriers capable of effectively dealing with the many challenges the industry is currently facing—i.e., elongating supply chains, domestic labor shortages, increasingly stringent EPA emissions rules, tightening safety and security rules, increased highway and port congestion, and local political resistance against the construction of new transportation and supply chain facilities—are presented with a significant opportunity to create significant, incremental shareholder value from this day forward.

In the ensuing paragraphs, we attempt to justify this long-term industry outlook by reviewing each of the drivers of increased freight transportation demand, as well as the forces working to limit the expansion of domestic freight transportation capacity.

Freight Transportation Demand Drivers

Elongation of Supply Chains
Gone are the days of fully integrated, regional economies. Winners in the manufacturing and retail sectors now source raw materials, components, and finished goods on a global scale, and they endeavor to serve a global market with their respective products and services. In basic terms, businesses today are leveraging new technology, access to virtually unlimited information and an expanded portfolio of transportation services to reap the benefits of purchasing economies of scale and/or less expensive labor, sourcing both goods and human capital on another coast or in another country. The theory is that the purchasing economies and/or the labor savings more than offset the increased transportation cost required to move the goods over longer distances. While on the surface it might appear that transportation demand should grow more slowly than GDP as the domestic economy continues to become increasingly dominated by non-transportation-intensive industries such as health care, financial services, and technology, the elongation of supply chains tends to offset virtually all of the impact associated with these trends.

Evolution of Big-Box Retailers and "E-tailers"
Not long ago, regionally focused discount chains dominated the retail industry. Today, in contrast, regional chains have been essentially replaced by national and international retail behemoths with massive supply-chain leverage. They utilize purchasing economies and well-oiled, elongated supply chains to carve out a significant competitive advantage (indeed, one could argue that Wal-Mart is more aptly defined as a supply-chain company today than as a retailer). The big-box retailers and e-tailers have developed insatiable appetites for truckload and intermodal capacity as they have built enough volume to justify purchasing full-load transportation, which costs significantly less than LTL (less-than-truckload) or ground parcel services.

Moreover, we believe most retailers have not yet finished expanding their geographic footprints. Wal-Mart, for example, plans to build another 555-600 new stores internationally in 2006 on top of the 6,096 it already operates, and the company is already the largest of its kind. In our opinion, big-box retailers' and e-tailers' demand for full-load transportation services should continue to grow more rapidly than domestic full-load transportation providers will be able to expand their capacity. (see reasons for this in the discussion below on industry capacity constraints).

Population Growth
Much of what is presently hauled around the United States can be characterized as food and consumer non-durables. Demand growth for this type of merchandise tends to track population growth, as few consumers tend to shortchange themselves when it comes to non-durables (e.g., paper towels, disposable diapers, cereal, prepared/pre-packaged foods). As the distribution channels for food and consumer non-durable goods gravitate towards either the big-box model or the e-tail model, we believe demand for freight transportation services should rise disproportionately, especially as the big-box retailers continue to build distribution channel models that stretch their supply chains.

Economic Growth/Increased Consumption
Those of us living in the United States live in a world of increasing productivity, an essentially zero (frequently negative) savings rate, and instant gratification. Increasing productivity driven by the application of technology, "offshoring," or simply the extension of the average work day (does the work day ever end for those that carry cell phones, Blackberries, and other productivity enhancing tools?) has led to an economic growth rate that exceeds the rate of population growth. With a national savings rate hovering around zero, consumption has continued to rise as the average American has chosen to pass up a conservative financial strategy for increased consumption now. The only real "savings" that exist today are wrapped up in potentially temporary "paper profits," such as financial instruments and real estate. It seems to us that the race is on to spend, spend, and spend even more in order to "keep up with the Joneses." When it comes to the latest electronic gadgetry and fashions, the largest affordable houses, and the latest automobiles or SUVs, it seems that no one wants to be left behind. We believe that increased productivity and a savings rate that often dips below zero are more reasons freight transportation demand should continue to grow faster than population growth in the United States.

Forces Constraining Domestic Freight Transportation Supply

Worsening Truckload Driver Shortage

Today's younger generations appear to be avoiding going to work in an industry that even remotely could be construed as "blue collar." The pay is less than spectacular, the hours are tough, and safety-related risks abound. When was the last time you heard someone say that they hoped their son or daughter someday decided to be a truck driver, a coal miner, a construction worker, an electrician, plumber, or table waiter (even though annual wages for many of these professions are on the rise)? The fact of the matter is that the Gen X/Gen Y crowd (sometimes called "the entitlement generation") can be generally divided into two groups: those with the aptitude and/or the desire to work hard academically in order to ultimately secure a high-paying, knowledge-related job, and those who lack the aptitude and/or those who are not willing to work hard enough academically to achieve a high-paying, knowledge-driven job.

The difficulty for recruiting truck drivers arises in the latter group. Their often blue-collar parents have repeatedly told them that they deserve better than their parents. Problems emerge when the parents' work ethic is not firmly ingrained within the child at an early age. To have a better life than one's parents requires some short-term sacrifice and a willingness to invest in one's future through study, training, or plain hard work. Many members of the second group hop frequently from one unsatisfying job to another. It seems each job either carries too little status, doesn't pay enough, involves too many hours, or requires too much effort. As a result, parents' dreams often go unrealized as the lack of work ethic pushes the child into even a more difficult position in life than the one created by the parents' hard work and diligence.

The winners and losers in the trucking industry over the next ten years will be determined by which carriers are able to sift through the Gen X/Gen Y crowd well enough to seat their trucks with reasonably responsible human beings that can/will pass a drug test, survive a background check, sleep in a truck, eat in truck stops, shower in truck stops, and meet customers' pick-up and delivery expectations. The definitive study on this subject, published in 2005 by Global Insight and the American Trucking Associations, suggests that by 2014 the trucking industry will be short 111,000 drivers (up from a shortage of 20,000 today).

Are immigrants the solution? Many immigrants drive taxi cabs, serve as cooks and wait staff in restaurants, perform maintenance and janitorial work, engage in landscaping activities, or work in child care. Interestingly, they do not, for the most part, drive our trucks. Can the industry and the public at-large get comfortable with allowing green-card-carrying immigrants, many of whom have difficulty with the English language, to go hurtling down the highway behind the wheel of an 80,000-pound rig, transiting the same interstates as our loved ones? Will Americans also get comfortable with the security risks associated with letting immigrants drive vehicles that have the potential to be converted into the ultimate terrorist weapon—a veritable bomb on wheels? How will the existing U.S.-domiciled truck driver population react to the use of immigrants for such important jobs? Only time will tell, though we have to doubt that the widespread use of immigrant truck drivers will become politically expedient at this point in U.S. history.

Worsening Highway Congestion

Highway congestion is no longer limited to the urban area during rush hour. Vehicle miles traveled has grown and will continue to grow faster than vehicle lane miles, according to the Department of Transportation's National Transportation Statistics. The recently passed federal highway bill provides little relief, as it is primarily designed to rebuild the vast interstate system which is nearing the end of its design life. The new funding will add little incremental capacity to the system. Truck drivers (the most precious commodity in the industry) can look forward to reduced productivity as highway congestion worsens in urban areas and on key links of the system connecting our more populous regions. There appears to be no easy answer to this seldom discussed issue.

The LCV Stalemate

An LCV (longer-combination vehicle) could be a truck tractor pulling three "pup" semi-trailers in combination, or a truck tractor pulling two 53' semi-trailers hooked together in combination. LCVs would likely enable a truck driver to increase his or her productivity by between 50% and 100%. However, a drop lot must be provided at most, if not at every, Interstate interchange, in order to enable drivers to unlock the increased productivity of LCVs. The cost of developing these drop lots would be significant, too, given the amount of development that has occurred near many interchanges and the resulting inflated cost of the required real estate. There is no money in the highway bill to support this type of project. Plus, the railroads and the highway-safety lobby have successfully shot down LCV proposals in the past. If an 80,000 pound rig is dangerous, a 130,000 pound rig must be almost twice as dangerous, or so the logic goes. Our sense is that LCVs will not provide any relief over the near- to medium-term, despite the fact that they may be one of the most logical solutions to the escalating transportation capacity crisis. There may be some relief possible over the longer-term, maybe around 10 years out, provided the safety lobby and the railroads would allow a factual review of the potential of LCVs.

FMCSA Safety Initiatives

As it stands now, the federal hours of service (HOS) rules, which have been modified twice in the past two years after remaining untouched since 1962, appear to have reduced truckload productivity by between 5 and 10 percent. The highway-safety lobby is still dissatisfied with the rules, even though truck-related safety statistics have been improving consistently. The next step in this ongoing process will involve the Federal Motor Carrier Safety Administration (FMCSA) issuing a rulemaking within the next several months that will likely require the use of on-board trip recorders throughout the trucking industry. The idea is that the agency needs to do a better job of enforcing the recently modified rules.

Our sense is that most of the large carriers, both publicly traded and privately held, have been good corporate citizens in this regard. They have quickly endeavored to modify operations in order to remain compliant with the changing hours of service rules. The abusers of the rules tend to be the smaller, privately held companies that are being pressured as a result of rising costs (i.e., fuel, insurance, equipment ownership, etc.), labor shortages, and their reliance on brokers to perform sales and marketing functions. Of economic necessity, many of these carriers become rogue truckers that survive by allowing drivers to falsify their log-books. Simply put, most drivers frequently drive for more hours than is permitted by law. This activity is "covered up" in the preparation of falsified paper logs. With on-board trip recorders, log-book falsifications are no longer an option. The economic loophole allowing many of these carriers to survive could soon be closed. As a result, these carriers are likely to exit the industry at accelerating rates, which means yet another freight transportation capacity reduction at a time when supply and demand are already tight. As an aside, it is interesting to contemplate the ramifications of this type of scenario for the burgeoning numbers of truckload brokers. Is it possible that they will soon be "tripping over one another" as they compete for a shrinking population of small truckers?

Industry Consolidation

We have written extensively in the past concerning "the core-carrier consolidation concept," which, in simple terms, refers to a vendor consolidation taking place within the truckload space. Shippers would prefer, in a perfect world, to deal with a smaller number of large fleets that have reduced their cost structures, improved service, and developed sophisticated management information and customer-interface systems. Historically, the large carriers have been able to grow by deepening their penetration at existing accounts, as the customer reduced the number of carriers with which it did business. This vendor consolidation process has slowed considerably, though, over the past five years, as large carriers have had trouble finding the qualified drivers needed to support growth. Instead, the carriers have turned their attention to growing their more driver-friendly operations (i.e., dedicated services, rail-based intermodal services, regional/distribution services, etc.) As the growth rates of these driver-friendly services accelerate, smaller, less competitive carriers should, once again, be forced off the edge of the competitive space, because many of them compete in these market niches. This modern-day version of the core-carrier consolidation process will, in our view, put the larger carriers more in control of their own destiny, as there will be a smaller number of small carriers, many of which traditionally have engaged in irrational pricing in the marketplace.

Railroads Are Not The Relief Valve

Historically, railroads have been best suited for hauling high-density, low-value commodities (e.g., coal, grain, aggregates, etc.) in most domestic freight lanes. However, railroads discovered fairly recently how to move lighter-density, higher-valued manufactured goods more efficiently in the long-haul, high-density intermodal lanes. After 50 years of endeavoring to avoid bankruptcy by shrinking capacity one step ahead of market share losses, the railroads have finally turned the corner. Unfortunately, though, they may have squeezed a bit too much capacity out of their networks during the downsizing years. Given the capital intensity associated with the railroad business and the fact that the industry has yet to earn its cost of capital, it appears unlikely to us that the railroads will be able to do much more than maintain their market share position going forward (i.e., growth to recapture some of the market share losses it endured over the last several decades should prove to be too costly to be realistic). Plus, railroads are not as flexible as trucking companies because they can only serve customers located along the railroad or those located in the general vicinity of an intermodal terminal. The cooperative spirit currently being displayed by the truckers and the railroads is laudable. However, we think it is naïve to believe that the railroads can provide capacity relief for the truckload driver shortage, increasing levels of highway congestion, the elongation of supply chains, and the increasing constraints imposed by trucking safety regulations. In our view, the railroads simply are not the silver bullet solution to the transportation capacity crisis.

Conclusion

How many industries have better underlying dynamics right now than the domestic freight transportation industry? We believe the prospect of long-term tightness in transportation supply and demand is a perfect platform on which skilled management teams can take share, improve their returns on invested capital, and generate significant free cash flow. In what other investment space can an investor buy shares of the best companies in a well-positioned, reasonably non-cyclical industry with pricing power for less than a market multiple? We reiterate our favorite transportation investment ideas at the moment, which include Celadon Group (CLDN; Buy; $28.82), CSX Corp. (CSX; Buy; $50.65), J.B. Hunt Transport Services (JBHT; Buy; $23.19), Quality Distribution (QLTY; Buy; $8.73), Norfolk Southern Corp. (NSC; Buy; $42.42), Old Dominion Freight Line (ODFL; Buy; $27.19), Ryder System (R; Buy; $41.00), Werner Enterprises (WERN; Buy; $21.27), and U.S. Xpress Enterprises (XPRSA; Buy; $17.79).

Stifel Nicolaus Target Price/Fair Value Estimate Matrix

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Company	Ticker	Rating	01/12/2006	CY07E EPS	Target Price/Fair Value Estimate P/E multiple	Target Price/Fair Value Estimate	Potential% upside
Quality Distribution	QLTY	Buy	$8.73	$0.90	12.0x	$11	**26.0%**
U.S. Xpress Enterprises	XPRSA	Buy	$17.79	$1.75	12.5x	$22	**23.7%**
Ryder System	R	Buy	$41.00	$3.87	13.0x	$50	**22.0%**
Norfolk Southern Corp.	NSC	Buy	$42.42	$3.70	13.5x	$50	**17.9%**
Celadon Group [1]	CLDN	Buy	$28.82	$2.33	14.0x	$33	**14.5%**
Old Dominion Freight Line	ODFL	Buy	$27.19	$1.93	16.0x	$31	**14.0%**
J. B. Hunt Transport Svcs.	JBHT	Buy	$23.19	$1.60	16.0x	$26	**12.1%**
Universal Truckload Svcs	UACL	Hold	$21.61	$1.39	17.0x	$24	**11.1%**
FedEx Corp. [2]	FDX	Hold	$100.31	$6.52	17.0x	$111	**10.7%**
CSX Corp.	CSX	Buy	$50.65	$4.45	12.5x	$56	**10.6%**
Werner Enterprises	WERN	Buy	$21.27	$1.60	14.5x	$23	**8.1%**
Forward Air Corp. [4]	FWRD	Hold	$36.11	$1.75	22.0x	$39	**6.6%**
Heartland Express	HTLD	Hold	$20.90	$1.18	18.5x	$22	**5.3%**
United Parcel Service	UPS	Hold	$74.67	$4.20	18.5x	$78	**4.5%**
Landstar System	LSTR	Hold	$41.03	$2.01	21.0x	$42	**2.4%**
Burlington Northern Santa Fe	BNI	Hold	$68.55	$5.10	13.5x	$69	**0.7%**
Marten Transport	MRTN	Hold	$20.73	$1.40	14.0x	$20	**-3.5%**
Swift Transportation	SWFT	Hold	$23.00	$1.64	13.5x	$22	**-4.3%**
Knight Transportation	KNX	Hold	$21.34	$0.97	21.0x	$20	**-6.3%**
Union Pacific Corp.	UNP	Hold	$79.12	$5.90	12.5x	$74	**-6.5%**
C.H. Robinson Worldwide	CHRW	Hold	$36.48	$1.41	23.5x	$33	**-9.5%**
Arkansas Best Corp.	ABFS	Hold	$45.09	$3.20	12.5x	$40	**-11.3%**
Central Freight Lines [3]	CENF	Hold	$1.85	($0.38)	NM	$2	**NM**

(1) CLDN is on June 30 fiscal year

(2) FedEx is on May 31 fiscal year

(3) CENF target price based on projected 2006 book value per share.

Source: Stifel Nicolaus estimates

STIFEL NICOLAUS

Equity Comps - Transportation

Comparative Valuation Matrix

(figures in $US millions, except per share amounts)

Company name (Ticker)	Rating	Price 01/12/2006	Diluted S/O	Market cap.	Total Debt	Cash & equiv.	TEV [a]	Equity value as a multiple of: 2004A	2005E[b]	2006E[b]	2007E[b]	Book value	Enterprise value as a multiple of: TTM Revenue	TTM EBITDA	TTM EBITDAR [c]	TTM EBIT	TTM ROA	TTM ROE	TTM ROIC	PEG ratio[d]	Div. Yield	FCF Yield
Truckload																						
Celadon Group (CLDN)	Buy	28.82	10.5	301.3	7.4	6.3	302.4	29.7x	18.0x	14.3x	12.4x	2.9x	0.7x	7.4x	5.4x	11.5x	9.1%	15.3%	14.6%	0.82	0.0%	8.1%
Covenant Transport (CVTI)	NR	13.67	14.7	200.8	76.3	3.7	273.4	12.7x	59.4x	29.1x	23.6x	1.1x	0.4x	4.5x	3.9x	14.7x	1.9%	3.6%	3.3%	1.53	0.0%	-2.9%
Frozen Food Express (FFEX)	NR	11.99	19.5	234.4	0.0	7.8	226.6	17.1x	12.0x	10.3x	11.4x	2.1x	0.4x	4.6x	3.9x	8.3x	10.2%	17.4%	16.9%	0.91	0.0%	-0.4%
Forward Air Corp. (FWRD)	Hold	36.11	33.1	1,196.1	2.3	78.3	1,120.1	34.5x	26.2x	22.9x	20.6x	7.3x	3.6x	15.7x	14.0x	17.8x	20.9%	25.1%	24.9%	1.47	0.7%	2.6%
Heartland Express (HTLD)	Hold	20.90	75.0	1,567.5	0.0	276.5	1,291.0	25.2x	22.5x	19.7x	17.7x	3.8x	2.6x	9.7x	9.7x	13.3x	12.6%	17.0%	17.0%	1.36	0.4%	4.2%
J.B. Hunt Transport Svcs. (JBHT)	Buy	23.19	171.6	3,980.1	75.7	3.7	3,991.2	21.6x	17.4x	16.2x	14.5x	5.0x	1.3x	7.7x	7.0x	11.1x	14.8%	26.4%	24.8%	0.97	1.0%	4.0%
Knight Transportation (KNX)	Hold	21.34	87.6	1,869.9	0.0	26.9	1,843.0	38.8x	30.5x	25.4x	22.0x	5.6x	3.7x	12.7x	12.5x	19.4x	13.6%	19.0%	19.0%	1.33	0.4%	0.1%
Landstar System (LSTR)	Hold	41.03	62.2	2,550.6	129.9	134.6	2,545.9	36.6x	21.1x	23.1x	20.4x	12.7x	1.1x	14.7x	14.4x	16.2x	15.9%	48.8%	31.1%	1.20	0.2%	5.5%
Marten Transport (MRTN)	Hold	20.73	22.0	456.5	36.3	0.8	492.1	25.6x	18.7x	16.6x	14.8x	2.4x	1.1x	6.4x	6.4x	11.9x	7.7%	13.3%	11.3%	1.35	0.0%	-0.8%
P.A.M. Transportation Svcs. (PTSI)	NR	18.02	11.3	203.8	26.3	9.0	221.1	19.2x	17.3x	13.9x	11.6x	1.2x	0.6x	4.5x	4.5x	11.6x	3.8%	6.4%	5.8%	0.89	0.0%	6.1%
Quality Distribution (QLTY)	Buy	8.73	19.0	166.2	281.7	1.4	446.5	12.3x	13.4x	11.6x	9.7x	NM	0.7x	6.9x	6.7x	9.6x	3.4%	NM	11.8%	0.65	0.0%	-3.7%
Swift Transportation (SWFT)	Hold	23.00	75.0	1,725.1	608.3	11.3	2,322.0	18.1x	16.3x	15.1x	14.0x	2.1x	0.7x	5.9x	5.4x	12.2x	5.1%	13.0%	8.8%	1.08	0.0%	-0.4%
Transport Corp. of America (TCAM)	NR	9.81	6.8	66.5	49.8	2.2	114.1	32.7x	39.2x	15.1x	13.1x	1.2x	0.4x	4.0x	4.0x	20.0x	1.1%	3.3%	3.3%	0.87	0.0%	-1.4%
Universal Truckload Svcs. (UACL)	Hold	21.61	16.1	348.3	0.0	31.2	317.1	19.5x	19.5x	17.7x	15.5x	3.2x	0.6x	10.4x	10.3x	12.2x	12.1%	17.3%	16.9%	1.20	0.0%	2.7%
USA Truck (USAK)	NR	29.80	9.6	287.5	104.8	3.9	388.4	37.7x	19.4x	14.1x	11.1x	2.0x	0.9x	5.5x	5.5x	12.6x	4.9%	12.6%	7.6%	0.74	0.0%	7.2%
Werner Enterprises (WERN)	Buy	21.27	82.0	1,743.8	0.0	20.5	1,723.4	19.7x	17.9x	15.2x	13.3x	2.1x	0.9x	5.4x	5.4x	10.9x	7.5%	11.9%	11.9%	0.95	0.8%	-4.7%
U.S. Xpress Enterprises (XPRSA)	Buy	17.79	16.6	295.3	177.1	15.4	457.0	15.3x	25.4x	13.0x	10.2x	1.3x	0.4x	6.4x	4.3x	18.2x	1.9%	5.1%	3.7%	0.58	0.0%	-5.2%
Min				66.5	0.0	0.8	114.1	12.3x	12.0x	10.3x	9.7x	1.1x	0.4x	4.0x	3.9x	8.3x	1.1%	3.3%	3.3%	0.58	0.0%	-5.2%
Mean				1,011.4	92.7	37.3	1,063.2	24.5x	23.2x	17.3x	15.1x	3.5x	1.2x	7.8x	7.3x	13.6x	8.6%	16.0%	13.7%	1.05	0.2%	1.2%
Mean (Asset-based TL only)				994.8	89.4	29.8	1,049.7	24.1x	24.2x	16.8x	14.6x	2.5x	1.1x	6.5x	6.0x	13.5x	7.2%	12.6%	11.4%	1.03	0.2%	1.1%
Median				348.3	36.3	9.0	457.0	21.6x	19.4x	15.2x	14.0x	2.3x	0.7x	6.4x	5.5x	12.2x	7.7%	14.3%	11.9%	0.97	0.0%	0.1%
Max				3,980.1	608.3	276.5	3,991.2	38.8x	59.4x	29.1x	23.6x	12.7x	3.7x	15.7x	14.4x	20.0x	20.9%	48.8%	31.1%	1.53	1.0%	8.1%
Stifel Nicolaus Transportation Average				**6,005.9**	**1,095.2**	**235.9**	**6,855.0**	**25.0x**	**21.0x**	**17.3x**	**15.3x**	**3.5x**	**1.8x**	**9.6x**	**8.8x**	**14.2x**	**8.0%**	**16.6%**	**13.5%**	**1.07**	**0.4%**	**1.8%**
Less-Than-Truckload																						
Arkansas Best Corp. (ABFS)	Hold	45.09	26.0	1,174.1	25.9	105.3	1,094.7	15.0x	12.5x	13.4x	14.1x	2.2x	0.6x	5.3x	5.2x	7.5x	10.6%	18.3%	17.6%	1.13	1.3%	6.7%
Central Freight Lines (CENF)	Hold	1.85	18.2	33.7	37.8	0.4	71.1	NM	NM	NM	NM	0.6x	0.2x	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
CNF Inc. (CNF)	NR	55.17	58.2	3,209.3	597.7	798.0	3,009.1	21.0x	14.3x	13.0x	12.3x	3.7x	0.7x	6.1x	5.5x	8.4x	8.0%	27.6%	16.5%	0.82	0.7%	6.7%
Old Dominion Freight Line (ODFL)	Buy	27.19	37.3	1,013.7	139.6	6.4	1,146.9	25.5x	19.1x	16.2x	14.1x	3.1x	1.1x	8.0x	7.7x	12.7x	8.7%	16.3%	12.8%	0.88	0.0%	-3.7%
SCS Transportation (SCST)	NR	25.14	15.8	396.6	125.8	3.9	518.4	17.8x	16.3x	13.6x	12.4x	1.8x	0.5x	5.8x	5.4x	12.4x	4.2%	10.4%	8.5%	0.83	0.0%	-2.8%
Vitran Corp. (VTNC)	NR	19.49	12.9	250.9	17.9	10.8	258.0	17.4x	13.8x	11.7x	10.1x	1.9x	0.6x	8.8x	6.7x	11.1x	8.8%	13.5%	11.8%	0.67	0.0%	0.1%
YRC Worldwide (YRCW)	NR	48.10	49.4	2,375.6	1,630.9	57.5	3,949.1	12.1x	9.2x	8.0x	7.9x	1.3x	0.5x	5.4x	5.1x	7.9x	6.0%	18.4%	11.5%	0.79	0.0%	7.7%
Min				33.7	17.9	0.4	71.1	12.1x	9.2x	8.0x	7.9x	0.6x	0.2x	5.3x	5.1x	7.5x	4.2%	10.4%	8.5%	0.67	0.0%	-3.7%
Mean				1,207.7	367.9	140.3	1,435.3	18.1x	14.2x	12.6x	11.8x	2.1x	0.6x	6.6x	5.9x	10.0x	7.7%	17.4%	13.1%	0.85	0.3%	2.4%
Median				1,013.7	125.8	10.8	1,094.7	17.6x	14.0x	13.2x	12.4x	1.9x	0.6x	5.9x	5.5x	9.7x	8.4%	17.3%	12.3%	0.83	0.0%	3.4%
Max				3,209.3	1,630.9	798.0	3,949.1	25.5x	19.1x	16.2x	14.1x	3.7x	1.1x	8.8x	7.7x	12.7x	10.6%	27.6%	17.6%	1.13	1.3%	7.7%
Stifel Nicolaus Transportation Average				**6,005.9**	**1,095.2**	**235.9**	**6,855.0**	**25.0x**	**21.0x**	**17.3x**	**15.3x**	**3.5x**	**1.8x**	**9.6x**	**8.8x**	**14.2x**	**8.0%**	**16.6%**	**13.5%**	**1.07**	**0.4%**	**1.8%**

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Excludes non-recurring items

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Source: Company data , First Call, and Stifel Nicolaus estimates

STIFEL NICOLAUS

Equity Comps - Transportation

Comparative Valuation Matrix

(figures in $US millions, except per share amounts)

Company name (Ticker)	Rating	Price 01/12/2006	Diluted S/O	Market cap.	Total Debt	Cash & equiv.	TEV [a]	Equity value as a multiple of: 2004A	2005E[b]	2006E[b]	2007E[b]	Book value	Enterprise value as a multiple of: TTM Revenue	TTM EBITDA	TTM EBITDAR [c]	TTM EBIT	TTM ROA	TTM ROE	TTM ROIC	PEG ratio[d]	Div. Yield	FCF Yield
Asset-Based Logistics																						
CNF Inc. (CNF)	NR	55.17	58.2	3,209.3	597.7	798.0	3,009.1	21.0x	14.3x	13.0x	12.3x	3.7x	0.7x	6.1x	5.5x	8.4x	8.0%	27.6%	16.5%	0.82	0.7%	6.7%
FedEx Corp. (FDX)	Hold	100.31	309.3	31,028.2	2,696.0	786.0	32,938.2	22.6x	18.7x	16.5x	15.4x	3.0x	1.1x	7.7x	7.1x	11.8x	8.0%	17.1%	13.5%	1.03	0.3%	2.2%
Ryder System (R)	Buy	41.00	65.5	2,683.5	2,218.3	140.5	4,761.3	13.8x	12.1x	11.3x	10.6x	1.7x	0.9x	3.9x	3.8x	10.2x	3.7%	14.1%	8.1%	0.71	1.6%	-14.0%
United Parcel Service (UPS)	Hold	74.67	1,122.7	83,832.8	5,032.0	3,890.0	84,974.8	25.7x	21.6x	19.4x	17.8x	5.0x	2.1x	11.5x	11.1x	14.6x	11.4%	23.4%	18.5%	1.32	1.8%	3.9%
Min				2,683.5	597.7	140.5	3,009.1	13.8x	12.1x	11.3x	10.6x	1.7x	0.7x	3.9x	3.8x	8.4x	3.7%	14.1%	8.1%	0.71	0.3%	-14.0%
Mean				30,188.4	2,636.0	1,403.6	31,420.8	20.8x	16.7x	15.0x	14.0x	3.3x	1.2x	7.3x	6.9x	11.3x	7.8%	20.5%	14.1%	0.97	1.1%	-0.3%
Median				17,118.7	2,457.2	792.0	18,849.7	21.8x	16.5x	14.7x	13.9x	3.3x	1.0x	6.9x	6.3x	11.0x	8.0%	20.2%	15.0%	0.92	1.1%	3.0%
Max				83,832.8	5,032.0	3,890.0	84,974.8	25.7x	21.6x	19.4x	17.8x	5.0x	2.1x	11.5x	11.1x	14.6x	11.4%	27.6%	18.5%	1.32	1.8%	6.7%
Stifel Nicolaus Transportation Average				**6,005.9**	**1,095.2**	**235.9**	**6,855.0**	**25.0x**	**21.0x**	**17.3x**	**15.3x**	**3.5x**	**1.8x**	**9.6x**	**8.8x**	**14.2x**	**8.0%**	**16.6%**	**13.5%**	**1.07**	**0.4%**	**1.8%**
Non-Asset-Based Logistics																						
C.H. Robinson Worldwide (CHRW)	Hold	36.48	172.4	6,287.9	0.0	315.1	5,972.8	46.2x	32.3x	29.0x	25.9x	8.4x	7.2x	20.1x	19.3x	20.4x	15.5%	27.2%	27.2%	1.72	1.4%	3.5%
EGL, Inc. (EAGL)	NR	35.89	53.4	1,917.7	33.3	131.3	1,819.7	34.8x	30.9x	22.4x	19.0x	3.9x	2.0x	11.0x	8.7x	14.1x	7.7%	18.0%	15.5%	1.02	0.0%	6.2%
Expeditors International (EXPD)	NR	66.22	114.1	7,558.7	0.0	461.5	6,860.6	47.0x	38.1x	32.3x	27.5x	8.6x	6.8x	22.3x	20.3x	24.7x	12.8%	22.1%	22.1%	1.77	0.2%	2.2%
Forward Air Corp. (FWRD)	Hold	36.11	33.1	1,196.1	2.3	78.3	1,120.1	34.5x	26.2x	22.9x	20.6x	7.3x	3.6x	15.7x	14.0x	17.8x	20.9%	25.1%	24.9%	1.47	0.7%	2.6%
Hub Group (HUBG)	NR	35.18	22.1	775.9	0.0	28.0	747.9	31.7x	23.0x	19.7x	16.3x	3.4x	4.0x	12.4x	11.3x	14.9x	6.2%	11.5%	11.7%	0.81	0.0%	6.5%
Landstar System (LSTR)	Hold	41.03	62.2	2,550.6	129.9	134.6	2,545.9	36.6x	21.1x	23.1x	20.4x	12.7x	1.1x	14.7x	14.4x	16.2x	15.9%	48.8%	31.1%	1.20	0.2%	5.5%
Pacer International (PACR)	NR	26.00	38.4	999.0	108.0	9.0	1,098.0	21.0x	17.8x	15.4x	13.8x	3.4x	2.6x	10.2x	8.1x	10.9x	9.5%	20.6%	14.9%	0.95	0.0%	7.8%
Quality Distribution (QLTY)	Buy	8.73	19.0	166.2	281.7	1.4	446.5	12.3x	13.4x	11.6x	9.7x	NM	0.7x	6.9x	6.7x	9.6x	3.4%	NM	11.8%	0.65	0.0%	-3.7%
Universal Truckload Svcs. (UACL)	Hold	21.61	16.1	348.3	0.0	31.2	317.1	19.5x	19.5x	17.7x	15.5x	3.2x	0.6x	10.4x	10.3x	12.2x	12.1%	17.3%	16.9%	1.20	0.0%	2.7%
UTI Worldwide (UTIW)	NR	90.48	32.7	2,959.6	130.8	146.4	2,794.4	43.9x	34.7x	27.6x	22.7x	5.4x	3.0x	18.6x	15.4x	21.9x	7.9%	17.0%	14.0%	0.91	0.1%	2.3%
Min				166.2	0.0	1.4	317.1	12.3x	13.4x	11.6x	9.7x	3.2x	0.6x	6.9x	6.7x	9.6x	3.4%	11.5%	11.7%	0.65	0.0%	-3.7%
Mean				2,476.0	68.6	133.7	2,372.3	32.7x	25.7x	22.2x	19.1x	6.2x	3.2x	14.2x	12.8x	16.3x	11.2%	23.1%	19.0%	1.17	0.3%	3.5%
Median				1,556.9	17.8	104.8	1,469.9	34.7x	24.6x	22.6x	19.7x	5.4x	2.8x	13.6x	12.7x	15.6x	10.8%	20.6%	16.2%	1.11	0.1%	3.1%
Max				7,558.7	281.7	461.5	6,860.6	47.0x	38.1x	32.3x	27.5x	12.7x	7.2x	22.3x	20.3x	24.7x	20.9%	48.8%	31.1%	1.77	1.4%	7.8%
Stifel Nicolaus Transportation Average				**6,005.9**	**1,095.2**	**235.9**	**6,855.0**	**25.0x**	**21.0x**	**17.3x**	**15.3x**	**3.5x**	**1.8x**	**9.6x**	**8.8x**	**14.2x**	**8.0%**	**16.6%**	**13.5%**	**1.07**	**0.4%**	**1.8%**

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Excludes non-recurring items

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STIFEL NICOLAUS

Equity Comps - Transportation

Comparative Valuation Matrix

(figures in $US millions, except per share amounts)

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Railroads																						
Burlington Northern Santa Fe (BNI)	Hold	68.55	396.8	27,203.4	6,403.0	274.0	33,332.4	23.9x	17.1x	15.4x	13.4x	2.7x	2.7x	8.7x	8.4x	11.9x	4.9%	15.1%	10.7%	1.14	1.2%	4.3%
Canadian National (CNI)	NR	78.30	296.5	23,216.0	4,291.4	102.6	27,404.8	23.4x	17.2x	14.7x	13.0x	2.9x	4.7x	10.7x	10.2x	13.3x	6.7%	16.0%	11.7%	1.18	1.1%	5.4%
Canadian Pacific (CP)	NR	40.43	161.8	6,542.8	2,590.0	74.7	9,058.1	23.1x	15.5x	12.9x	11.6x	1.8x	2.6x	7.9x	7.6x	11.5x	3.4%	8.7%	6.5%	1.29	1.3%	-0.4%
CSX Corp. (CSX)	Buy	50.65	239.8	12,147.4	6,005.0	590.0	17,562.4	27.3x	16.2x	13.3x	11.4x	1.6x	2.1x	8.0x	7.7x	12.7x	2.9%	9.5%	7.0%	1.11	1.0%	2.6%
Genesee & Wyoming (GWR)	NR	37.32	28.6	1,068.8	335.0	6.2	1,367.5	25.7x	21.2x	17.6x	15.3x	2.8x	3.8x	15.7x	14.1x	21.3x	5.8%	13.2%	9.7%	0.93	0.0%	3.6%
Kansas City Southern (KSU)	NR	25.21	66.7	1,682.6	1,607.7	72.4	3,217.9	NM	NM	33.2x	29.7x	1.2x	2.8x	16.7x	14.0x	38.8x	-3.4%	-9.4%	-2.2%	1.66	0.0%	-0.2%
Norfolk Southern Corp. (NSC)	Buy	42.42	415.0	17,605.3	6,958.0	1,050.0	23,513.3	19.5x	15.2x	13.3x	11.5x	2.0x	2.9x	8.5x	8.3x	11.7x	4.4%	13.2%	9.3%	0.95	1.2%	6.7%
RailAmerica (RRA)	NR	11.30	38.2	431.8	436.5	13.7	854.6	19.8x	13.6x	10.4x	8.8x	1.0x	2.0x	10.0x	8.6x	15.7x	3.1%	8.5%	5.2%	0.55	0.0%	-8.8%
Union Pacific (UNP)	Hold	79.12	268.2	21,218.6	7,466.0	337.0	28,347.6	27.4x	24.3x	16.0x	13.4x	1.6x	2.2x	9.9x	9.1x	16.5x	2.4%	6.5%	5.4%	1.60	1.5%	0.0%
Min				431.8	335.0	6.2	854.6	19.5x	13.6x	10.4x	8.8x	1.0x	2.0x	7.9x	7.6x	11.5x	-3.4%	-9.4%	-2.2%	0.55	0.0%	-8.8%
Mean				12,346.3	4,010.3	280.1	16,073.2	23.8x	17.5x	16.3x	14.2x	1.9x	2.8x	10.7x	9.8x	17.1x	3.4%	9.1%	7.0%	1.16	0.8%	1.5%
Mean (Class I Rails only)				15,659.4	5,045.9	357.2	20,348.1	24.1x	17.6x	17.0x	14.8x	2.0x	2.8x	10.0x	9.3x	16.7x	3.0%	8.5%	6.9%	1.28	1.0%	2.6%
Median				12,147.4	4,291.4	102.6	17,562.4	23.7x	16.7x	14.7x	13.0x	1.8x	2.7x	9.9x	8.6x	13.3x	3.4%	9.5%	7.0%	1.14	1.1%	2.6%
Max				27,203.4	7,466.0	1,050.0	33,332.4	27.4x	24.3x	33.2x	29.7x	2.9x	4.7x	16.7x	14.1x	38.8x	6.7%	16.0%	11.7%	1.66	1.5%	6.7%
Stifel Nicolaus Transportation Average				**6,005.9**	**1,095.2**	**235.9**	**6,855.0**	**25.0x**	**21.0x**	**17.3x**	**15.3x**	**3.5x**	**1.8x**	**9.6x**	**8.8x**	**14.2x**	**8.0%**	**16.6%**	**13.5%**	**1.07**	**0.4%**	**1.8%**

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BUY -We expect this stock to outperform the S&P 500 by more than 10% over the next 12 months. For higher-yielding equities such as REITs and Utilities, we expect a total return in excess of 12% over the next 12 months.

HOLD -We expect this stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. A Hold rating is also used for those higher-yielding securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

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Of the securities we rate, 39% are rated Buy, 60% are rated Hold, and 1% are rated Sell.

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Additional Information Is Available Upon Request

Supplement To The Testimony Of John G. Larkin

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Summary of Testimony:

The future of our nation's increasingly global economic growth depends on the trucking industry, and in turn, our nation's highway system, for the timely, efficient, and cost-effective movement of freight throughout our country.

The freight transportation system in the United States is the backbone of our growing economy.

As our standard of living continues to improve, our rate of consumption increases, industries consolidate, and supply chains lengthen, the freight transportation industry is being asked to move considerably more freight over longer distances. However, it is simultaneously being constrained by a set of scarce resources that simply have not been able to expand quickly enough to satisfy the rapid growth in demand.

The trucking industry is suffering from an inability to add capacity due to what has become a chronic shortage of truck drivers.

The industry, which handles 81% of the nation's freight bill, also has to cope with a highway system that is becoming increasingly congested, not just in urban areas during rush hour but on links between big cities during traditionally non-peak periods.

The highway bill passed in 2005 is mostly targeted at the rehabilitation of existing, 30-year-old infrastructure. It included relatively few provisions for meaningful, incremental capacity additions that would have positioned our highway system to handle the future growth in demand that most industry analysts currently anticipate.

Additional constraints have been placed on driver productivity due to recent changes in the federal hours-of-service rules.

Further, federal size and weight laws have not changed appreciably since 1982, and, as a result, it has been virtually impossible to improve the productivity of good drivers, since the laws, as written, won't allow each driver to haul more freight utilizing longer and/or heavier trucks.

The ongoing capacity crisis in the trucking industry is placing significant constraints on trucking companies' collective ability to meet the growing demands of their increasingly global customers.

We need a plan to increase capacity, ideally through a combination of significant infrastructure additions and alterations to existing regulations in an effort to enhance truck drivers' productivity.

The economic vitality of the United States, the trucking industry, and the highway system are inextricably linked. In order to support sustained economic growth, we need a healthy trucking industry, and in order to

support a healthy trucking industry we need a fluid highway system that allows increasingly scarce drivers to be as productive as possible.